

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON

In the Matter of the Application regarding
the Conversion and Acquisition of Control
of Premera Blue Cross and its Affiliates

Docket No. G02-45

PREMERA'S STATUS REPORT

I. INTRODUCTION

The Washington State Insurance Commissioner ("Commissioner") issued the Second Order: Order on Status Conference (the "Second Order") on November 13, 2002. The Second Order requires the parties, identified as PREMERA and the OIC Staff, to file written reports by November 22, 2002. The Second Order sets forth the following as subjects for discussion at the Status Conference on November 26, 2002:

1. *Whether the OIC Staff has issued data or information requests to PREMERA and, if so, the nature and number of those requests;*
2. *The status of PREMERA's responses to any requests;*
3. *Plans of OIC Staff, if known at this time, to issue data and information requests to PREMERA in the future;*
4. *Each parties' estimate of the time that each parties' experts will require to prepare written reports regarding the proposed transaction; and*
5. *PREMERA'S objection to the First Order: Case Management Order ("First Order") regarding the time to review the proposed transaction.*

The Second Order also directs the parties to provide the phone numbers for the parties' counsel or representatives for the Status Conference.

PREMERA'S STATUS REPORT - 1

This Status Report is submitted by PREMERA, Premera Blue Cross, and certain of their affiliates (collectively, "Premera") as provided in the Second Order. Premera requests that the Status Conference be conducted in person and that Premera representatives be permitted to attend the Status Conference.

11. STATUS REPORT

1. Whether the OIC Staff has issued data or information requests to PREMERA and, if so, the nature and number of those requests.

The OIC Staff, through the consultants it has engaged, has issued the following data and information requests:

- Letter dated October 22, 2002 from Cantilo & Bennett, L.L.P., accompanied by the following:
 - "Section One: Initial Questions," containing 13 categories of information requests
 - "Section Two: List of Documents Requested," containing 130 categories of document requests
 - "Section Three: Meetings to be Scheduled with Premera Management and Employees," requesting interviews with various members of Premera management and including 33 topics for review in those interviews
- Letter dated November 1, 2002 from Cantilo & Bennett, L.L.P., containing miscellaneous supplemental document requests in six additional areas.

These document and information requests are attached as Exhibits A and B, respectively.

On November 9, 2002, the OIC Staff sent Premera a letter (attached as Exhibit C) requesting supplementation of Premera's Form A. Many of the documents described in the letter are not appropriately required to be included in a Form A filing and must, therefore, be considered to be supplemental data requests.¹ The November 19 letter also appears to take the position that all documents and other information previously requested by the OIC Staff consultants in their data and information requests, as well as all documents and information that they may request in the future, constitute part of the Form A filing. Premera submits that this position is inconsistent with applicable law.

2. The status of *PREMERA's* responses to any requests.

To date, Premera has made available to the OIC Staff consultants more than 16,000 pages of documents for their review. The document production process is described in John Domeika's letter dated November 15, 2002, to Deputy Commissioner Odiorne, attached as Exhibit D.

Premera is expeditiously working on the remainder of the document production. However, Premera has two significant concerns about the relevance of certain documents that have been requested. First, many documents relate to valuation. Because Premera has committed to give 100% of the initial stock of New PREMERA, representing 100% of its value, to the Foundation Shareholder upon conversion, valuation appears to be immaterial. Production to and subsequent consideration of such documents by the OIC Staff consultants is likely to be both time-consuming and costly, as well as unnecessary.

¹ For example, the OIC Staff requests the existing BCBSA License Agreement between Premera and BCBSA, as well as a November 2001 survey conducted by Accenture, an entity unrelated to Premera.

Second, the materials requested by the OIC Staff consultants include documents dating back to 1933. These requests will result in the production of thousands of pages of documents, perhaps tens of thousands of pages of documents. Many of those documents appear irrelevant to the issues to be reviewed under the Holding Company Acts, and will result in unnecessary cost and expenditure of time.

The document production is being conducted pursuant to a financial and market conduct examination, notice of which was initially given by Deputy Commissioner Odiorne by letter dated October 21, 2002. That notice listed the financial examination as of date to be June 30, 2002, and the market conduct examination period to be January 1, 1997 through June 30, 2002. See Exhibit E. By letter dated November 1, 2002, the OIC Staff revised the scope of the market conduct examination to date back to 1933. The letter states in relevant part:

The financial examination as of date is June 30, 2002. The market conduct examination will cover the period of January 1, 1933 through June 30, 2002. These examinations will likely cover documents and information that may have been the subject of prior examinations.

See Exhibit F.

The period 1933 to the present was covered by numerous prior OIC examinations, covering multiple examination periods that have been closed. The most recent financial examination for Blue Cross of Washington and Alaska ("BCWA," the predecessor corporation of Premera Blue Cross) covered the period January 1, 1990 to December 31, 1994, and it resulted in a final order dated June 30, 1997.² The most recent OIC market

² A financial examination of Medical Services Corporation of Eastern Washington ("MSC"), which merged into Premera Blue Cross in June 1998, was conducted for the period December 31, 1992 to December 31, 1996, and entered by OIC order dated August 25, 1998.

1 conduct examination for BCWA was for the period January 1, 1992 to September 30, 1993,
2 and it resulted in final orders dated May 4, 1994 and May 2, 1995.³

3 When the Commissioner adopts an examination report, the examination is closed and
4 not subject to reopening for purposes of obtaining additional documentation, data, or
5 information. See RCW 48.03.040(4)(a), (b). The order constitutes a final administrative
6 decision. RCW 48.03.040(5). A notice of examination dating back to 1933 therefore exceeds
7 the permissible scope of inquiry for the current examination. Premera is willing to produce,
8 and in fact has produced, documents which date back to earlier periods. However, Premera
9 does not concur that the examination should date back to 1933 or that all prior period
10 documents are relevant to the conversion review.
11

12 Accordingly, Premera believes the examination period should commence for the
13 period starting January 1, 1995 for the current financial examination and October 1, 1993 for
14 the current market conduct examination. Premera proposes that the examination notice
15 should be clarified to (a) correct the review period consistent with the preceding sentence, (b)
16 note that requests for documents from prior periods are solely for informational purposes
17 related to the conversion review, and (c) provide that review of prior period documents will
18 not reopen closed examination periods.
19

20 **3. Plans of OIC Staff, if known at this time, to issue data and information requests**
21 **to PREMERA in the future.**

22 Premera understands that this query, regarding OIC Staff future plans, is directed only
23 to OIC Staff, not to Premera.
24

25 ³ See also market conduct examination of MSC for the period January 1, 1990 to June 1,

4. Each parties' estimate of the time that each parties' experts will require to prepare written reports regarding the proposed transaction.

The Commissioner has announced that future public meetings will be held for review of reports to be submitted by the OIC's outside consultants. Premera requests an opportunity to review and comment upon the OIC consultants' reports before they are publicly disseminated. Among other things, Premera needs to make sure that its confidential information is protected from disclosure. To date, Premera has not been requested to submit and does not anticipate submitting expert reports for those public meetings.

Premera expects to submit pre-filed testimony of its experts and/or other witnesses as required by the First Order: Case Management Order and in compliance with the Commissioner's future scheduling orders. As discussed in Paragraph 5 below, Premera requests that, in addition to discussion of dates for submitting pre-filed testimony, other pre-hearing and hearing schedule issues be discussed at the Status conference.

5. PREMERA'S objection to the First Order: Case Management Order ("First Order") regarding the time to review the proposed transaction.

Premera interprets the Second Order to require the OIC Staff to file a response to Premera's Motion for Reconsideration and Clarification dated November 1, 2002, by the November **22, 2002** date specified in the Second Order, if OIC Staff determines to oppose the motion. The Second Order does not state the date by which Premera must file its reply brief if OIC Staff opposes the motion. Premera respectfully requests an opportunity to submit a reply brief. See RCW 34.05.437(1). Premera further requests an indication as to whether the Commissioner intends to hold a hearing on the motion, and if so, the schedule for such hearing.

1991, which resulted in an examination report dated November **27**, 1991.

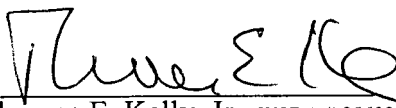
Premera previously submitted a proposal to OIC Staff regarding an agreed extension of the Holding Company Act review period to March 1, 2002. See Exhibit G, Letter from Yori Milo to Deputy Commissioner Odiorne dated November 1, 2002. Any differences of opinion with respect to the timing requirements of the Holding Company Act would be moot if the parties stipulated, with the approval of the Commissioner, to an agreed date by which the Commissioner would issue his decision on the Form A filing. Accordingly, Premera requests that the Premera extension proposal be discussed at the Status Conference. More specifically, Premera requests that the Commissioner consider discussing a hearing and pre-hearing schedule, including dates for conducting discovery, filing pre-filed testimony, and concluding other tasks that must be completed before the adjudicative hearing is held, as well as a date for the hearing itself.

11. CONCLUSION

Premera believes the Status Conference can be extremely valuable to both parties, as well as to the Commissioner, in addressing the matters identified in the Second Order as well as the various related matters addressed in this Status Report. To make the most effective use of the Status Conference, Premera proposes that the conference be held in person, at such place as the Commissioner shall direct. In the event an in-person status conference is not possible, Premera representatives will be available at (206) 467-6984.


DATED this 22nd day of November, 2002.

PRESTON GATES & ELLIS LLP

By 
Thomas E. Kelly, Jr., WSBA # 05690
Kirk A. Dublin, WSBA # 05980
Attorneys for PREMERA, Premera Blue
Cross and their affiliated companies

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PREMERA and Premera Blue Cross

By 
Yoram Milo, Chief Legal Officer
John P. Domeika, General Counsel

PROOF OF SERVICE

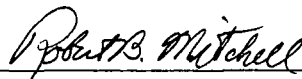
I certify that I served a copy of this document on all parties or their counsel of record
on the date below as follows.

State Campus Delivery

Hand delivered by _____

I certify under penalty of perjury under the laws of the State of Washington that the
foregoing is true and correct.

DATED this 22nd day of November, 2002.



Robert B. Mitchell

James T. Odiome
Deputy Insurance Commissioner
Company Supervision
P.O. Box 40259
Olympia, WA 98504-0259

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Tumwater, WA 98501

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October 22, 2002

John Domeika, Esq.
Senior Vice President and General Counsel
Premera Blue Cross
7001 220th Street S.W.
Building 3, M.S. 316
Mountlake Terrace, Washington 98043-2124

Re: In the Matter of the Conversion and Acquisition of Premera and/or Its
Subsidiaries ("Premera"); Our File No. 61000-001

Dear Mr. Domeika:

The purpose of this letter is to provide you with an initial consolidated list of documents and information requested, and meetings required with certain of Premera's employees, by the Washington Office of the Insurance Commissioner (the "OIC") and its consultants for review of Premera's pending conversion. It is likely that OIC or the consultants will make additional document and meeting requests as the evaluation of the proposed conversion continues. We will be grateful if the source of documents and information provided in response is identified clearly. Three sections follow this letter, the first posing a number of questions, the second requesting documents, and a third identifying several members of Premera's management with whom the OIC's advisors would like to meet promptly. In regards to the third section, please provide a few early dates of availability for the named individuals. In posing the requests for documents and information, we have assumed that you will not change any of the proposed conversion's elements. Such changes might eliminate the need for some documents and information while prompting others.

In preparing these lists, we have combined the consultants' requests and have attempted to organize them in what we hoped would be helpful categories. We have also endeavored to eliminate duplicate and overlapping requests, as well as requests for information that has already been provided. Nonetheless, there may be items on this list that have been provided through Premera's Form A, and related exhibits, or requested previously at our recent meeting in Washington on October 14, 2002. Furthermore, as we discussed, our requests should be read in the broadest possible context. That is, information that Premera finds **as** irrelevant, yet within this request's scope, should nonetheless be provided. Similarly, information that we have not specifically requested, but is nonetheless deemed by Premera to be responsive to the subjects of this request, should be provided. Such forthrightness will prevent any delays, and will continue to make this **an** expeditious and cost-effective process.

A

John Domeika, Esq.
October 22, 2002
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CANTILO & BENNETT, L.L.P.

Any requested confidential information will be kept confidential pursuant to the terms of the confidentiality agreement into which each of the consultants have or will have entered. Any confidential documents should be clearly labeled as such.

Please review this list, and advise when and how these documents and this information can be provided to us for distribution to the consultants. As previously discussed, to the maximum extent possible, all requested information should be delivered in an electronic format to expedite this process, as well as provided in hard copy format at Premera's data room. Confidential information may be delivered in password-protected electronic format and we can agree on access to the passwords when it is produced. If any requested information cannot be delivered electronically, please advise us accordingly, and deliver the documents in a hard copy format. If furnishing copies of any documents on the attached list would be too burdensome, please advise how we might arrange to review the material. If for any reason you are unable to provide any of the documents requested, please provide a brief explanation and, if possible, any ideas as to other sources for comparable information.

Electronic information can be sent to Patrick H. Cantilo at phcantilo@cantilobennett.com. We will arrange for its redistribution. To save time, it will be helpful if copies of the information can also be sent to the following:

Sandra S. Hunt at sandra.s.hunt@us.pwcglobal.com,
Martin Alderson Smith at alderson@blackstone.com, and
Kathryn H. Baxter at kbaxter@llgm.com.

For identification and tracking purposes, all documents should be number-stamped. In cases in which the original documents contained colors that were material to their interpretation, we request color copies. Furthermore, Premera should have an initial copy of the requested documents in the data room regardless of previous delivery in an electronic or non-electronic format, and should have one or more copies of the documents not delivered available for the consultants' review at Premera's offices. We gather from our meeting that Premera has allocated more than sufficient resources to meet the consultants' needs. We recognize that not all of the items requested may be available immediately, or at the same time. In order to expedite our work, please provide now that which is readily available, providing other items as they become available, and explaining when we may expect to receive those items not furnished now. Additionally, as you know, the consultants' initial reports are due to the OIC on December 1, 2002. Therefore, to meet this aggressive deadline, we require the utmost cooperation from Premera to expedite this process, which you have indicated will be forthcoming.

John Domeika, Esq.

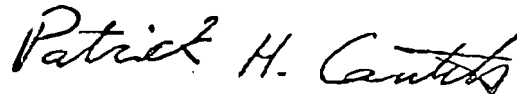
October 22, 2002

Page 3

CANTILO & BENNETT, L.L.P.

As always, we are grateful for your attention to these Matters.

Sincerely yours,

A handwritten signature in cursive script that reads "Patrick H. Cantilo". The signature is fluid and written in dark ink.

Patrick H. Cantilo

SECTION ONE: INITIAL QUESTIONS

A. Proposed Structure of the Transaction

1. Description of proposed transaction and anticipated accounting and tax treatments.
2. What criteria will the board of directors use in determining the distribution of assets to the separate Washington and Alaska foundations?
3. What is the current expectation as to the amount of the foundation endowment?

B. Post-Transaction Expectations

4. What are Premera's plans regarding provider incentives?
5. Are there any plans to acquire other health plans or other businesses in Washington, Alaska, or Oregon?
 - a. If so, provide details of the plans and expected financial impact.
 - b. What impact are the acquisitions expected to have on current Premera policyholders?
6. What employees or other resources will be reorganized/eliminated as a result of the conversion?
7. Please provide detail about any contingent litigation matters and your best estimate of the range of resulting exposure.
8. What changes in premium pricing do you anticipate during the two years following the effective date of the conversion? Please include:
 - a. The reasons for the anticipated changes;
 - b. In what lines you expect changes to occur;
 - c. The magnitude of average changes you expect in each of the affected lines;
 - d. The expected impact on projected revenues for these changes;
 - e. What impact you expect the changes to have on the volume of business in force; and

- f. Whether the changes would occur at the same level if the conversion were not implemented.
- 9. Does Premera plan to make investments in information technology or other major capital expenditures during any of the next three years that are materially changed from the average of its information technology and capital investments during the last three years? If so, please explain:
 - a. The nature of the investment,
 - b. The reason for the change, and
 - c. The expected timing and magnitude of such investments.
- 10. Plans for issuance of debt and impact of interest expense on financials.

C. History and Background

- 11. Please describe the process by which the Board of Directors elected to enter into the conversion, describing specifically other proposals and options it considered, and the criteria and assumptions upon which it relied in making its decision.

D. Tax Matters

- 12. Describe the anticipated tax treatment and consequences of the conversion and all associated transactions on the companies involved, the foundations, the policyholders, and employees including, but not limited to, the following:
 - a. Whether the transactions will be completely tax-free;
 - b. The effect, if any, of the conversion on the special tax benefits allowed to Blue Cross Blue Shield organizations;
 - c. Whether tax deductions will be claimed in connection with the transfer of stock or other assets to the foundations;
 - d. The impact of the conversion on the tax filings of Premera and any consolidated return issues;
 - e. The impact of the conversion on the tax attributes (*e.g.*, loss or credit carryovers) of the Premera group;
 - f. Whether the foundations will be recognized as organizations exempt from federal income tax (*i.e.*, under IRC Sec. 501(c)(3), 501(c)(4), etc.);

- g. In the event that the foundations are classified as "private foundations" for federal income tax purposes, whether any taxes (including excise taxes) will be incurred by the foundations;
 - h. Whether the conversion will result in any tax consequences associated with qualified or nonqualified benefit plans, employment agreements, or severance benefits; and
 - i. Whether the conversion will have any impact on the tax provisions or balance sheet items related to tax.
13. Please describe the manner in which Premera plans to achieve tax comfort on the tax issues associated with the conversion, and the tax issues that it intends to gain tax comfort on.

SECTION TWO: LIST OF DOCUMENTS REQUESTED

A. Corporate Records

- 1. Current snapshot of organizational charts before/after the proposed conversion listing all Premera subsidiaries and affiliated members of the Insurance Holding Company System of which Premera is a member, including headcount data.
- 2. List of states where Premera and each of its affiliates is or has been licensed or qualified to do business for the last 5 years.
- 3. Schedule of all acquisitions, mergers, dispositions, or other affiliations, and their incorporation status, effected by Premera from inception through the current date (1933 to present).
- 4. Presentations from senior management or by Premera's financial advisor(s) to Premera's management, its Board of Directors or any of its subcommittees regarding corporate strategy and planning, including all presentations regarding the proposed transaction and alternatives considered since January 1, 1997.
- 5. All written correspondence and materials exchanged between Premera and its financial advisor(s).
- 6. Minutes of meetings of Premera's Board of Directors and any of its subcommittees that have examined the issue of the potential conversion for the last five years.
- 7. Copies of any third-party consultant studies/actuarial appraisals prepared for Premera with respect to the transaction.

8. Any studies or analyses prepared with respect to the impact of Premera's conversion to "for-profit" status.
9. Summary description of all inter-company agreements (*e.g.*, general management, cost sharing, investment management, tax sharing) in force from January 1, 1997, to the present, and changes thereto through the current date.
10. A schedule of payments/reimbursements for all inter-company expenses related to any inter-company agreements for the year 2001 and for the six months ended June 30, 2002 (and the nine months ended September 30, 2002, when available).
11. Blue Cross Blue Shield Association ("BCBSA") licensing agreement.
12. Most recent application of Premera for renewal of regular membership in the BCBSA.
13. Complete copies of all correspondence, including e-mails and memoranda of oral conversations, between Premera and BCBSA regarding the proposed conversion and related or alternative transactions.
14. The most recent articles of incorporation and bylaws for each of the companies within Premera, including, the articles of incorporation and bylaws for PBC-AK.
15. The articles of dissolution and plans of distribution for LifeWise.
16. Application for solicitation permit for New PREMERA.
17. Registration documents for health service contractor status for the post-conversion "new" companies.
18. Any documents regarding analysis by Premera or its advisors of the Foundation Shareholder's, and its related Washington and Alaska charitable organizations', funding and governance issues.
19. The following exhibits to the Form A that have not been provided to date:
 - Exhibit A-6 Application for Certificate of Authority for PBC-AK in Alaska
 - Exhibit E-7 Business Plan (according to form A, was submitted confidentially)
 - Exhibit E-8 Description of Destacking Transaction
 - Exhibit G-10 Description of Stock Ownership Plans

Exhibit G-20 BCBSA License Agreement Addendum

Exhibit G-2I Intellectual Property License Agreement

Exhibit H-1 Financial Statements of Applicant and its Affiliates

Exhibit H-2 Management Agreement.

B. Financial Statements:

The following should be presented on both a premium and premium equivalent and a premium and fee basis, where applicable.

20. Complete statutory Annual Statements and audited statutory financial statements for all statutory entities for all the years in business for each entity
21. Supplemental Annual Statement filings for Premera, including Management's Discussion and Analysis, SVO Compliance Certification, Supplemental Compensation Exhibit, and Schedule DC (if there are any investments in insurance futures) for all years.
22. Statutory Quarterly Statement for Premera statutory entities as of June 30, 2002, and September 30, 2002.
23. STAT to GAAP reconciliations for statutory entities for the period ending December 31, 1990, through December 31, 2001.
24. Audited GAAP financial consolidated statements for Premera, together with consolidating schedules and footnotes, for all the years in business..
25. Audited GAAP financial statements for all Premera subsidiaries and affiliates for all the years in business, and for the six months ended June 30, 2002, and the nine months ended September 30, 2002 (when available).
26. Breakdown of historical financial information on a premium and fee basis by product line, operating unit and geographic region for the years ended December 31, 1997, through 2001 and Q1 and Q2 2001 and 2002 (Also provide Q3 2001 and 2002 data when available).
27. Balance sheet, income statement, cash flow statement, and the analysis of operation by lines of business for Blue Cross in Washington and Alaska and Medical Service Corporation of Eastern Washington starting in 1957 and every 10 years until 1997.

28. Monthly internal management reports, including operating results, management discussion and analysis of financial results, and a comparison of performance relative to budget on a premium and fee basis, since January 1, 1999.
29. Any detail on minority interests or nonconsolidated investments included on Premera's balance sheet, including a description of each venture and the partner(s), Premera's ownership, the initial amount invested, and summary historical and projected financial statements.

C. Audit Information

30. External auditor's management letter with management response for the last three years 2001, 2000, and 1999.
31. External auditor's summary of unadjusted differences list in connection with December 31, 2001, audit.
32. Summary listing of all internal audits conducted in 2001, and through June 30, 2002, and access to audit reports and work papers.
33. Access to independent auditors' working papers to related to the 2001, 2000, 1999, and 1998 audits.
34. All letters from independent accountants to Premera or any subsidiary, and any reports prepared by internal auditors, counsel or others, regarding Premera's internal control systems, methods of accounting, and any correspondence related to material accounting issues (e.g., change in accountants, increase in reserves for doubtful accounts) since January 1, 1998.
35. Management representation letters and audit waiver letters for all internal audits conducted in 2001, and through June 30, 2002 (and September 30, 2002, when available).

D. Regulatory Financial/Actuarial Information

36. Summary of Premera permitted statutory accounting practices in Washington, Alaska, and Oregon for each of the ten years ended December 31, 2001, and for the six months ended June 30, 2002 (and the nine months ended September 30, 2002, when available).
37. For each of Premera's subsidiaries: a description of the basis of valuation utilized in the statutory Annual Statement of Premera as of December 31, 2001, including any NAIC Securities Valuation Office filings.
38. NAIC IRIS Ratio results for Premera for the years ended December 31, 1997, to December 31, 2001, including copies of management's analysis of any "unusual values".

39. NAIC Risk-Based Capital calculations for Premera's statutory entities for the years ended December 31, 1997, to December 31, 2001.
40. All statutory financial examination reports of Premera and its regulated affiliates for any state for the years ending December 31, 1997, to December 31, 2001.
41. Actuarial analyses and reports prepared for this transaction.

E. Tax, Financial and Actuarial Information Related to this Transaction

42. All federal and state income tax returns for 2001, 2000, and 1999 for the Premera group and its affiliates including supporting workpaper files and access to any additional prior year open returns not requested above as necessary.
43. Copy of any tax sharing agreements to which Premera or any of its affiliates is a party and documentation supporting the settlement of inter-company balances in accordance with such agreements.
44. List of current open tax years and summary of statute of limitations extensions or waivers.
45. Listing of issues that have been raised but are unresolved and agreed to adjustments with respect to examinations in process.
46. Listing of any issues raised in connection with previous IRS examinations in the last 10 years and an explanation of how such items were resolved.
47. Listing of any deferred inter-company transactions among Premera and its affiliates.
48. Provide information relating to the proposed tax treatment of costs incurred by Premera and its affiliates in connection with the proposed transaction.
49. Any tax opinions or memoranda (both internal or external) whether in draft or final form, or ruling requests related to the conversion and its impact on the company, the policyholders, or the foundation.
50. Any tax opinions, or memoranda (both internal or external) whether in draft or final form relating to whether Premera has previously undergone a material change in operations or structure pursuant to IRC section 833.
51. Copies of any valuations performed in connection with subscriber contracts, workforce and other intangibles that existed as of January 1, 1987, and summary of amortization deductions taken in prior open tax returns (if any).

52. Listing of all accounting method change requests within the last 5 years for federal income tax purposes and copies of the related Forms 3115.
53. Any analysis or review memoranda addressing the impact that the proposed transaction would have on the prospective utilization or limitation of any tax attributes including net operating losses, capital losses, built-in losses, AMT credits, general business credits, etc
54. Workpapers supporting the 2001, 2000, and 1999 current and deferred tax provisions and related assets or liabilities for STAT and GAAP purposes, including detail related to any provisions for contingent tax exposures and the company's assessment of risk with respect to any such contingencies.
55. Summary of all employee benefit plans and related plan documents.
56. Copies of any correspondence with the Department of Labor on the ERISA exemption/opinion request, if any.
57. Copy of 2001 premium tax returns for Washington and Alaska and any other state where Premera or its affiliates write significant amounts of business.
58. Any analysis or projections of future taxable income used in connection with any actuarial valuation or financial projections along with underlying key assumptions.

F. Other Financial/Actuarial Information

59. Annual Reports to Policyholders of Premera for the years ended December 31, 1997, to December 31, 2001.
60. Internal Financial Statements that show detailed gain/loss by product line (LOB Reports) for all years in business.
61. BCBSA Capital Benchmark calculations for Premera for the years ended December 31, 1997, to December 31, 2001.
62. BCBS Brand strength analyses for the years ended December 31, 1997, to December 31, 2001.
63. Reserve Details and actual runout to allow for a comparison of actual runout in 2002 for services performed in 2001 by entity and by product line.
64. For each year, 1993 through 2002, lapse experience by Product Line.
65. Filed 2000-2002 Rates, Pricing Assumptions by Product Line by state (rate filings).

66. Detail analysis of interest income and expense for the last five years and fiscal 2001.
67. Detail of all reserve items and balances at each year-end for each entity and Product Line.
68. Actuarial analysis to determine adequacy of reserve accounts for last five years and fiscal 2001.
69. Capital adequacy compared to BCBS National Association Standards for the three years ended 12/31/2001.
70. **An** analysis of the impact of the required adjustments to premium and claims for the past 5 years and the unaudited 2002 quarters if Premera becomes public with detail of the types of contacts and related amounts causing the adjustment.
71. Discussion of how members are counted and tracked.
72. Copy of Accenture Study.
73. Impact of Codification at 12/31/01 by type and amount of adjustment.

G. Financial Projections on Stand Alone Basis and Post-Conversion Basis

74. Financial Projection and Budget for 2003 through 2007 on a premium and fee basis by entities, product line and geographic region. Annual projections by business unit for 2002 - 2007, including income statement, balance sheet, cash flow statement, and other available pro forma financial information, as well as all key assumptions.
75. Forecasted NAIC Risk-Based Capital position and BCBSA Capital Benchmark levels for all years.
76. Information regarding changes to current Premera operations:
 - a. Price changes by product and anticipated change in number of customers;
 - b. Product mix changes;
 - c. Changes to major cost items;
 - d. Changes in payroll expense including severance expenses for top executives;
 - e. Changes in number and location of employees by function; and
 - f. Changes in overhead allocation.

- 77. Detail schedule for interest expense and interest income.
- 78. Any analyses or studies demonstrating Premera's current and anticipated capital expenditure needs.

H. Claims/Underwriting

- 79. Product line (HMO, PPO, POS, Indemnity, and ASO, plus non-medical products, *e.g.*, dental vision, Rx, group life, disability, accident) information by state of operation for each year in business:
 - a. Detail on pricing;
 - b. Detail on number of customers (contracts and members);
 - c. Detail for each major cost item;
 - d. Detail on general and administrative expense;
 - e. Detail on sales, marketing and commissions;
 - f. Overhead allocations;
 - g. Margin analysis;
 - h. Detail schedule of premium receivable and medical claims payable;
 - i. Detail of reserve accounts; and
 - j. Detail of DPAC and unearned premiums.
- 80. Market Segment (Individual, Small group, Large Group, Government, Other) information by state of operation for each year in business:
 - a. Detail on pricing;
 - b. Detail on number of customers (contracts and members);
 - c. Detail for each major cost item;
 - d. Detail on general and administrative expense;
 - e. Detail on sales, marketing and commissions;

- f. Overhead allocations;
 - g. Margin analysis;
 - h. Detail schedule of premium receivable and medical claims payable;
 - i. Detail of reserve accounts; and
 - j. Detail of DPAC and unearned premiums.
81. For Market Segment (Individual, Small Group, Large Group, Government, Other) Indemnity, and **ASO**) by major product lines by state of operation for each year in business (this is the crosswalk for items 80 and 81):
- a. Detail on pricing;
 - b. Detail on number of customers (contracts and members);
 - c. Detail for each major cost item;
 - d. Detail on general and administrative expense;
 - e. Detail on sales, marketing and commissions;
 - f. Overhead allocations;
 - g. Margin analysis;
 - h. Detail schedule of premium receivable and medical claims payable;
 - i. Detail of reserve accounts; and
 - j. Detail of DPAC and unearned premiums.
82. Claims, underwriting, and rate manuals and/or guidelines.
83. Underwriting criteria for Premiera.
84. For the last five years, premium rate history for Premiera and competitor carriers.
85. For the last five years, the underwriting rejection percentage for Premiera.
86. Detailed analysis of underwriting profit or loss for all years in business.

87. Development of loss and loss expense ratios for all years in business.
88. Premium trends by product, size, geography, and demographic category.
89. Number of customer contracts, provider system contracts and vendor contracts. identifying top 25 of each (state basis of ranking - *e.g.*, \$ or # of claims?).
90. List of top competitors by product including market share by geography (subset for Alaska and Washington, with further subdivision for distinct geographic regions in Washington).
91. For Premera, copies of typical provider contracts **as** follows, by geography (subset for Alaska and Washington, with further subdivision for distinct geographic regions in Washington):
 - a. Physician, both capitated and non-capitated;
 - b. Hospital; and
 - c. Other providers and subcontracted providers (dental, vision, mental health, prescription drugs).

I. Reinsurance

92. Summary description of all Premera reinsurance agreements in force from 1990 to December 31, 2001, and changes thereto through the current date. Copies of all reinsurance agreements in force as of December 31, 2001, and through the current date.
93. List of all reinsurers by recoverable balance as of December 31, 2001, and June 30, 2002; also their current A.M. Best ratings.
94. Analysis of reinsurance collectability, reinsurance recoverable and funds withheld from reinsurers for last three years ending 12/31/ 2001.
95. Financial information on reinsurance premium, claims, recoveries, and expense allowances.

J. Investment Operations

96. Investment portfolio analysis as of December 31, 2001, and June 30, 2002, to include:
 - a. Maturity schedule and average life;
 - b. Quality analysis;

- c. Yield analysis;
 - d. Market value analysis including unrealized gains/losses; and
 - e. Mortgage-backed securities and real estate characteristics.
97. Detail on investment gains / losses for the ten years ended December 31, 2001, and as of June 30, 2002.
 98. Listing of asset managers, size of portfolio and performance.
 99. Summary of derivative instruments.
 100. Documentation of the investment policies and practices of Premera in effect as of December 31, 2001, and June 30, 2002.
 101. Summary of write-offs on investments and current watch list.
 102. All correspondence between Premera and rating agencies over the past three years.

K. Personnel and Management

103. Summary of Premera existing management compensation levels, bonuses, and directors fees, including independent consultant studies, Board presentations, and other supporting materials.
104. Biographies of senior management.
105. Summary of Premera planned modifications to management compensation levels, bonuses, and director fees, either arising out of reorganization or planned for implementation post reorganization.
106. Independent compensation consultant studies and Premera management's analysis of proposed changes, including a summary of all options considered.
107. Summary of proposed stock grants, options, or other equity-based incentive programs for Premera directors, elected officers, and key members of management, including proposed conditions restrictions regarding grants, options, and aggregate holdings for this group.
108. Historical and projected (prior to and after conversion) headcount by function and location.
109. Senior management employment contracts including compensation associated with each.

- 110. Severance and change of control agreements including compensation associated with each.
- 111. Changes to severance and employment agreements in the last 12 months.
- 112. Detail schedule on severance and other payroll expenses for top executives.
- 113. Employee turnover for officers, department heads and managers for the past five years including a comparison to other health carrier experience.

L. Legal

- 114. Copies of correspondence, analysis, and documentation of any claims of legal, equitable or beneficial ownership to part or all of the Premera companies by hospitals, associations, or other parties.
- 115. Copies of any analysis, opinions, and filings regarding any state or federal securities issues related to the conversion.
- 116. List of all potential buyers or strategic partners with whom you had discussions.
- 117. Copies of any proposals or offers for the company made by third-parties, if any.
- 118. Copy of any management presentations, offering memoranda, or similar documents given to potential buyers or strategic partners, if any.
- 119. Copies of correspondence with potential buyers or strategic partners, if any.
- 120. Summary of any pending lawsuits against Premera - detail on claimants, claimed damages, brief history, status, anticipated outcome and name of the Premera counsel.
- 121. Summary of any lawsuit initiated by Premera - detail on defendants, claimed damages, brief history, status, anticipated outcome and name of Premera counsel.
- 122. Summary of insurance coverage/any material exposures.
- 123. Summary of material contracts, including non-competition agreements.
- 124. All correspondence between Premera or any subsidiary with lenders for the past three years regarding a breach of or default under the terms of any agreements evidencing borrowings by Premera and their respective subsidiaries, including any guarantees of third party obligations.

125. Any agreement pursuant to which Premera makes, or could be required to make, any payment to any of its affiliates, including, without limitation, any management or tax sharing agreement.
126. Description of any potential environmental issues involving Premera.
127. All acquisition agreements, including without limitation, the merger agreement between Blue Cross of Washington and Alaska and Medical Service Corporation.

M. Policyholder and Member Communications

128. Mailings, publications, or other communications to date regarding the proposed conversion with:
 - a. Policyholders,
 - b. Agents,
 - c. Employees, or
 - d. Others.
129. All other public relations information.
130. Overview and plans for future communications with each group.

**SECTION THREE: MEETINGS TO BE SCHEDULED WITH PREMERA
MANAGEMENT AND EMPLOYEES**

A. H.R. Brereton "Gubby" Barlow, President and Chief Executive Officer

1. Transaction overview and rationale.
2. Discussion of decision making process:
 - a. Not-for-profit vs. for-profit company.
 - b. Potential affiliation with another not-for-profit Blue Cross Blue Shield company.
 - c. Conversion with IPO vs. sponsored conversion.
 - d. What other alternatives were considered?
3. Premera's strategic vision / financial plan.

4. Discussion of current competitive position.

B. Kent Marquardt, Executive Vice President, Finance and Chief Financial Officer

5. Overview of Premera's historical and current financial position.

6. Discussion of historical results by business line / product / profit center / geographic region.

7. Discussion of budgeting process and overview of Premera's projected financial results, including key drivers of growth.

8. Discussion of projected results by business line / product / profit center / geographic region.

9. Discussion of historical and projected levels of capital requirements (e.g., required surplus, capital expenditures, technology investments).

10. Please discuss the Company's documentation and assessment of internal controls especially in light of the new Sarbanes-Oxley requirements and the requirements that the CEO and CFO to sign certifications when and if the Company becomes a SEC registrant.

11. Discussion about actuarial services, or with primary actuary.

C. Brian Ancell, Executive Vice President, Health Care Services and Strategic Development

12. Transaction overview and rationale.

13. Discussion of decision making process (i.e., how did Premera decide that a conversion was the right strategic direction?)

14. Discussion of other alternatives considered and rejected (e.g., remaining independent, sponsored conversion, etc.).

15. Premera's strategic vision/financial plan.

16. Discussion of plans to implement Premera's long-term strategy.

D. Alan Smit, Senior Vice President and Chief Information Officer

17. Discussion of current systems.

18. Discussion of Premera's position in terms of technology requirements for its business.
19. Discussion of historical and projected levels of capital requirements for technology.
20. Head of each significant business unit (Curtis Taylor, Senior Vice President, General Manager - Eastern Washington; Jeffrey W. Davis, Vice President and General Manager - Alaska; and others, as appropriate).

21. Discussion of strategic direction at the business unit level.

22. Discussion of historical and projected financial results.

E. Karen Bartlett, Senior Vice President, Operations

23. Overview of Premera's operations.

24. Discussion of future capital requirements of the business.

F. C. Marion Butler, Jr., Executive Vice President, Sales and Marketing

25. Overview of Premera's sales and marketing function.

26. Discussion of Premera's competitiveness by region and product.

27. Discussion of impact of the conversion on Premera's business.

G. Yori Milo, Executive Vice President, Chief Legal and Public Policy Officer

28. Overview of rationale/methodology behind key conversion documents.

29. Discussion of legal issues raised by the conversion.

30. Summary of current litigation/regulatory issues.

H. Head of Investments

31. Overview of Premera's investment portfolio and strategy.

32. Review of procedures to identify problem loans.

33. Review of current watch list/problem investments.

CANTILO & BENNETT, L.L.P.

ATTORNEYS & COUNSELORS
*A Texas Registered Limited Liability Partnership
Comprised of Professional Corporations*

7501 North Capital of Texas Highway
Building C, Suite 200
Austin, Texas 78731
www.cantilobennett.com

Telephone: (512) 478-6000

Facsimile: (512) 404-6550

November 1, 2002

John Domeika, Esq.
Senior Vice President and General Counsel
Premera Blue Cross
7001 220th Street S.W.
Building 3, M.S. 316
Mountlake Terrace, Washington 98043-2124

Re: In the Matter of the Conversion and Acquisition of Premera and/or Its
Subsidiaries; Our File No. 61000-001

Dear Mr. Domeika:

Please provide the following data items pursuant to the terms listed in our First Data Request dated October 22, 2002.

SUPPLEMENTAL DATA REQUEST

A. Provider Networks

1. Description on how each provider network (Foundation, Access, Heritage, Global) is used in conjunction with each major product line (HMO, PPO, POS, Indemnity).
2. Detail on the number and type of provider contracts in each network by county or relevant geographic area.
 - a. Hospitals
 - b. Other facilities by type of facility (e.g., Urgent Care, Ambulatory Surgery Centers)
 - c. Primary Care Physicians (with definition)
 - d. Specialty Care Physicians

B

John Domeika, Esq.
November 1, 2002
Page 2

CANTILO & BENNETT, L.L.P.

e. ~~Other~~ professional providers by type (*e.g.*, Nurse Practitioners, Physician Assistants, Mental Health professionals, Chiropractic, Acupuncturists)

3. Top 25 provider contracts ranked by payments by type of provider

- a. Hospitals
- b. Primary Care Physician / Groups
- c. Multi-Specialty Physician Groups

B. Benefit Design

4. Please identify the top two individual and top three small group, and the large group market benefit designs, and provide

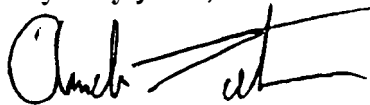
- a. Product type and deductible co-payment level
- b. ~~Number~~ of contracts or percent of the market represented by each of the top three products.

C. Actuarial

5. Description/definition of geographic rating areas used for the individual and small group markets.

6. Discussion of recent (past five years) or expected changes in the definition of geographic rating areas used for the individual and small group markets.

Very truly yours,



Andrew V. Taktajian

cc: Patrick H. Cantilo, Esq.
Ms. Sandra S. Hunt
Kenneth B. Schnoll, Esq.
James T. Odiorne, Esq.

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON



Phone: (360) 407-0542
Fax: (360) 407-0540

OFFICE OF
INSURANCE COMMISSIONER

November 19, 2002

John P. Domeika
Senior Vice President and General Counsel
Premera
Post ~~Office~~ Box 327
Seattle, Washington 98111-0327

Re: Form A - second deficiency list

Dear Mr. Domeika:

Attached is our second list of Form A deficiencies. This list was prepared after considering all prior supplementation by Premera.

Please remember that supplementary documents and their review may identify other documents or information necessary for our review.

We look forward to promptly receiving further supplementation of the Form A.

Sincerely,

A handwritten signature in cursive script, appearing to read "James T. Odiorne".

JAMES T. ODIORNE, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division

cc: Regulators
Consultants

C

Premera Form A (conversion)
Missing Documents
As of 11/18/02

- I. Solicitation Permit Applications for:
 1. Issuance of stock by New Premera to the Foundation Shareholder.
 2. IPO, if any, of New Premera to public.
 3. Sale of New Premera stock to existing shareholders as called for in the Stockholder Protection Rights Agreement (may violate 2 year limitation for solicitation permit).
 4. Issuance of stock of New Premera Blue Cross Corporation.
 5. Issuance of stock of New LifeWise Health Plan of Washington.

John Domeika's response of 10/25/02 states that other than the issuance of a solicitation permit for the initial stock of New Premera to the Foundation Shareholder, New Premera Blue Cross Corp. and New LifeWise Health Plan of Washington, Inc., subsequent Solicitation permits are not required. This is incorrect; RCW 48.06.180 requires solicitation permits for subsequent financing.

- II. Most all of the Exhibits are in Pro Forma fashion and are unsigned and undated. Also, some of the documents refer to parties who are as yet unidentified. We do understand that the documents must remain unsigned until final completion of the transaction and therefore the Form A will be incomplete until that time. We also understand that as unidentified parties become known, Premera will so notify the Commissioner.

- III. As listed in the Exhibit List to the Form A:
 1. Exhibit G-20 BCBSA License Agreement Addendum
Still need the existing BCBSA License Agreement between Premera and BCBSA.
 2. Exhibit G-21 Intellectual Property License Agreement
Exhibits 1 and 2 are incomplete.

- IV. Exhibits to Form A Exhibits:
 1. Schedule 1 (Assets) to Form A Exhibit G-11
 2. **Schedule 2** (Assumed Liabilities) to Form A Exhibit G-11

- V. Documents referred to:

November 2001 survey conducted by Accenture referred to in the Business Plan, Exhibit E-7 to Form A.

In response to our original request, John Domeika referred us to an internet site for the Accenture survey. However, the internet site survey referred to is a January 2002 survey by Accenture which contains only excerpts of the November 2001 survey. We still need the full November 2001 survey.

- VI. Membership Restrictions Agreement mentioned in Section 1(j) of the Indemnification Agreement.

The reference to this Membership Restriction Agreement was removed from the Indemnification Agreement. However, we still require *this* Membership Restrictions Agreement.

- VII. All of the documents and information requested by the consultants.

November 15, 2002



VIA FACSIMILE (360-407-0540) AND REGULAR MAIL

Mr. James T. Odiorne
Deputy Insurance Commissioner
Office of the Insurance Commissioner
P.O. Box 40259
Olympia, WA 98504-0259

Re: Your letter dated November 13, 2002

Dear Mr. Odiorne:

Your November 13, 2002 letter primarily addressed two matters -- the availability of information and data of the company that has been requested by the Office of Insurance Commissioner's consultants and the protections from disclosure to third parties of confidential, trade secret, and other proprietary information. This letter is to address both matters and to provide confirmation of the matters we resolved during our conversation of yesterday afternoon.

As you are aware, we received the initial data request on October 22, 2002, which was followed by three subsequent supplements, the most recent of which was dated November 1, 2002. The documents requested by the state consultants encompass many thousands of pages -- potentially in the tens of thousands of pages -- dating back to 1933. The work by the company's employees to identify, locate, review, copy and produce those documents is monumental. Consistent with our mutual objective of expediently providing as many documents as possible so that the consultants could begin their work, we committed during our first meeting with the OIC's consultants in mid-October to undertake a rolling production of the documents that they would be requesting. The company has been working diligently on these data requests since we received the initial request. At our meeting with the consultants held on November 7 at our offices, we made available over 5,000 pages of documents and mailed copies of those documents to the consultants' offices.

Additionally, as we discussed yesterday afternoon, we have assembled and made available for review at our offices by close of business today additional documents that include over 10,000 pages of additional materials requested by the consultants. We also **will** be mailing on Monday some of the requested documents to each of the consultants. We continue to work expeditiously to complete the remaining document production.

With respect to the confidentiality issue, as you will recall, we have expressed a need and engaged in many discussions with the OIC and its consultants to reach an understanding

D


as to the confidentiality of the proprietary data and information that have been requested of us. After completing their engagement agreements with the OIC in late October or early November, the consultants entered into their non-disclosure agreements with us at the end of last week.

The OIC's position on the confidentiality matter was communicated to us through your November 13 letter. We appreciate your assurances as expressed in that letter that, should such a request be made by a third party for any confidential information, you will at a minimum provide us with prompt notice so that we can take steps to safeguard the information under RCW 42.17.330 and other law. We agree with you that the Public Records Act recognizes the importance of protecting proprietary information that comes into the OIC's possession by providing many exemptions that apply to such information. In addition to the ones you identify, we would point out RCW 42.17.260(1), which exempts from public inspection or copying records that are encompassed by any "other statute which exempts or prohibits disclosure of specific information or records." Among the statutes incorporated by reference under RCW 42.17.260(1) is the Uniform Trade Secrets Act, chapter 19.108 RCW. *PAWS v. University of Washington*, 125 Wn.2d 243, 261-62, 884 P.2d 592 (1994). As the court observed in that case: "The Public Records Act is simply an improper means to acquire knowledge of a trade secret." *Id.* at 262.

Finally, I understood from our discussions of yesterday that the examination will continue while we continue to resolve any other outstanding issues related to the data requests. I learned today that some of the OIC's consultants will be arriving at our offices on Monday to continue their review and examination of the documentation and other information that we have assembled in the data room that we have reserved for the consultants.

I welcome the opportunity to continue our discussions about the process for providing access to the information by the OIC's consultants.

Very truly yours,

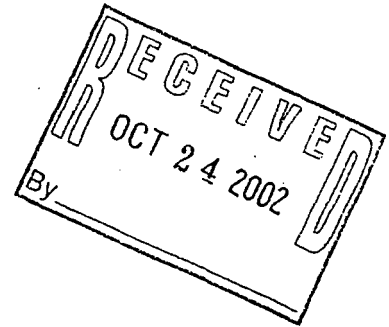


John P. Domeika
Senior Vice President
& General Counsel



OFFICE OF
INSURANCE COMMISSIONER

Phone: (360) 407-0542
Fax: (360) 407-0540



October 21, 2002

Mr. H. R. B. Barlow, CEO
Premera Blue Cross
Post Office Box 327
Seattle, Washington 98111

Re: Examination of Premera Blue Cross and its affiliates

Dear Mr. Barlow:

Please be advised that Premera Blue Cross and its affiliates have been scheduled for a combined financial and market conduct examination pursuant to RCW 48.31C.070 by the office of the Insurance Commissioner. The examination will be conducted pursuant to the applicable sections of Chapter **48**, Revised Code of Washington (RCW) and Chapter **284**, Washington Administrative Code (WAC).

I will coordinate this examination. The examination will be conducted by a number of consultants who will be identified for you as soon as they are retained. The financial examination as of date is June 30, 2002. The market conduct examination will cover the period of January 1, 1997 through June 30, 2002. Our target date to begin work on this examination is October 24, 2002.

The examination will be conducted on-site in your office, in our offices, and in the offices of our retained consultants. In the very near future, I will present a preliminary listing of information for the examination. Premera's cooperation in quickly furnishing the requested information and any subsequently requested information will be greatly appreciated.

If you have questions about any information contained in this letter, please feel free to contact me. I look forward to working with you on this examination.

Sincerely,

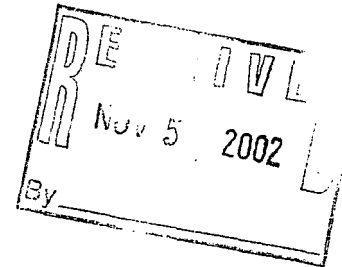
JAMES T. ODIORNE, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division

cc: Michael G. Watson, Chief Deputy Insurance Commissioner
John Domeika, Premera Blue Cross



OFFICE OF
INSURANCE COMMISSIONER

November 1, 2002



Mr. H. R. B. Barlow, CEO
Premera Blue Cross
Post Office Box 327
Seattle, Washington 98111

Re: Revised notice of examination of Premera Blue Cross and its affiliates

Dear Mr. Barlow:

Please be advised that Premera Blue Cross and its affiliates have been scheduled for a combined financial and market conduct examination pursuant to RCW 48.31 C.070 by the Office of the Insurance Commissioner. The examination will be conducted pursuant to the applicable sections of Chapter 48, Revised Code of Washington (RCW) and Chapter 284, Washington Administrative Code (WAC).

I will coordinate this examination. The examination will be conducted by a number of consultants who will be identified for you as soon as they are retained. The financial examination as of date is June 30, 2002. The market conduct examination will cover the period of January 1, 1933 through June 30, 2002. These examinations will likely cover documents and information that may have been the subject of prior examinations. Our target date to begin work on this examination is October 24, 2002.

The examination will be conducted on-site in your office, in our offices, and in the offices of our retained consultants. In the very near future, I will present a preliminary listing of information for the examination. Premera's cooperation in quickly furnishing the requested information and any subsequently requested information will be greatly appreciated.

If you have questions about any information contained in this letter, please feel free to contact me. I look forward to working with you on this examination.

Sincerely,

JAMES T. ODIORNE, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division

cc: Michael G. Watson, Chief Deputy Insurance Commissioner
John Domeika, Premera Blue Cross

F

November 1, 2002

VIA FACSIMILE: ORIGINAL BY MAIL

James T. Odiorne
Deputy Insurance Commissioner
Company Supervision
Washington State Office of Insurance Commissioner
P.O. Box 40259
Olympia, WA 98504-0259

RE: Premera Form A filing/OIC Docket No. G02-45A
Premera Proposed Extension of Conversion Review Period

Dear Deputy Commissioner Odiorne:

On October 25, 2002, Premera filed the remaining documents requested by the Washington State Office of Insurance Commissioner (OIC) to complete Premera's Form A filing related to its proposed reorganization. **By** prior agreement between Premera and **the** OIC, the review period provided for under the Holding Company Acts for the Form A filing **was** extended to December 27, 2002. Premera submits this letter to propose a further extension **of** the statutory review period.

The **OIC** has indicated **a** desire for additional time to **fully** engage its consultants in the review **of** the Form A filing, and to hold applicable hearings prior to Commissioner Kreidler's decision on the filing. In addition, various members **of** the community have expressed a desire that the review period be extended, Premera **has** consistently stated its desire to cooperate with the **OIC** and other state officials in review of the filing, **and** to **permit** a full **opportunity** for all members of the community with questions or comments relating to the reorganization to submit their views to the OIC. Premera is amenable to another extension of the Holding Company Act review period. Accordingly, Premera hereby proposes that the date on which the Insurance Commissioner is required to make a decision on the filing be extended by consent of the parties and the Commissioner.

We propose an extension beyond the statutory review period **to** March 1, 2003. That would allow a full four months from the October 25 filing, and significantly longer from the date of Premera's prior Form A submittal which provided most **of** the substantive documents in September.

G

James T. Odiome
November 1, 2002
Page 2

We hope you concur that Premera's proposal to extend the statutory review period to March 1, 2003, meets your objectives and is satisfactory to you and to Commissioner Kreidler. If so, and subject to the OIC's written commitment to conclude the review proceedings and issue a decision by that date, Premera would similarly commit to such ~~an~~ extension. Enclosed for your review is a proposed stipulated order to that effect.

We look forward to discussing this proposal further with you.

Sincerely,



Yori Milo
Executive Vice President
Chief **Legal** and Public Policy Officer

John P. Domeika
Senior Vice President
General Counsel

cc: Honorable Mike Kreidler, Washington State Insurance Commissioner
Carol Sureau, Deputy **Insurance** Commissioner for **Legal Affairs**
~~Robert~~ Lohr, Director of Alaska Division of Insurance
~~Robert~~ J. Fallis, Washington State Assistant Attorney General
A. Russell Latham, Chief Financial Analyst, Oregon Department of Consumer
& Business Services

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BEFORE THE **INSURANCE** COMMISSIONER
OF THE STATE OF WASHINGTON

In the Matter of the Application regarding
the Conversion and Acquisition of Control
of Premera Blue Cross and its Affiliates

Docket No. 02 - 45

SECOND ORDER: STIPULATION
AND ORDER REGARDING
PROCEDURES

I. INTRODUCTION

1. **PREMERA**, on behalf of Premera Blue Cross and its affiliates (collectively, "Premera"), filed a "Statement Regarding the Acquisition of Control of Domestic Health Carrier and Domestic Insurer" on September **17,2002**, which was subsequently supplemented on September **27,2002** and October **25,2002**. (collectively, the "Premera Statement").

2. The Premera Statement is subject to review by the Washington State Insurance Commissioner ("Commissioner") under the provisions of the Washington State Holding Company Acts (the "Acts"), **RCW 48.31B** and **48.31C**. On October **24,2002**, the Commissioner issued a Case Management Order in Docket No. G02-45 (the "First Order"). Among other things, the First Order provides that the Commissioner will hold a public hearing on the Premera Statement, which shall be conducted as an adjudicative proceeding (the "Hearing"), and that OIC Staff ("OIC") and **PREMERA** are the parties to such proceeding. The First Order further provides that "[t]he Act requires the Commissioner to make a decision regarding the Application within **60** days after the filing is complete." The

¹ The First Order refers to the Premera Statement as the "Application."

1 date by which the Commissioner is required by the Act to make his determination on the
2 Premera Statement is referred to herein **as** the 'Determination Deadline.'

3 **3.** The OIC and **PREMERA** have reached certain agreements with respect to
4 procedural issues related to the Premera Statement and the Hearing, and are submitting this
5 Stipulation **and** Order to the Commissioner for the Commissioner's approval and entry **as** the
6 Second Order in Docket No. **G02-45**.

8 **II. STIPULATION OF PARTIES**

9 **1. Completeness of Premera Statement.** The OIC and **PREMERA** agree that ~~the~~
10 Premera Statement is complete effective on October **25,2002**, and that the Commissioner
11 should declare the Premera Statement complete **as** of that date consistent with the provisions
12 of **RCW 48.31B.015(4)(b)** and **RCW 48.31C.030(4)**.

13 **2. Statutory Approval Period.** Under the circumstances set forth in the preceding
14 paragraph, the Determination Deadline would be statutorily set based on the October **25,2002**
15 filing completion date, absent agreement to some other date between the OIC **and**
16 **PREMERA**. The OIC and **PREMERA**, by prior agreement, extended the Determination
17 Deadline to December **27,2002**. They now desire further to extend the Determination
18 Deadline as specified in paragraph **II.3** below.

19 **3. Stipulation for Further Extension.** The OIC and **PREMERA** hereby stipulate that
20 the Determination Deadline for the Premera Statement should, subject to ~~the~~ Commissioner's
21 approval of this Stipulation and Order, be extended to March **1,2003**, and subject to any
22 further extension mutually agreed to by the OIC and **PREMERA** and approved **by** the
23 Commissioner.
24
25

STIPULATED ORDER - 2

1 4. Related Procedural Apreements. The OIC and PREMERA further stipulate,
2 subject to the Commissioner's approval of this Stipulation and Order, that all review of the
3 Premera Statement (including all discovery related to the Premera Statement and related to tl
4 Hearing, **and** the Hearing itself), should be completed prior to March **1,2003** in order for the
5 Commissioner to issue his determination approving or disapproving the Premera Statement o
6
7 **or** before that date.

8 **STIPULATED BY:**

9 **PRESTON GATES & ELLIS LLP**

10 By _____
11 Carol S. Arnold, WSBA # 18474
12 Kirk A. Dublin, WSBA # 05980
13 Attorneys for PREMERA, Premera Blue **Cross** and their affiliated companies

14 WASHINGTON STATE OFFICE OF
15 INSURANCE COMMISSIONER

16 By _____
17 James T. Odiome, Deputy Insurance Commissioner

18 By _____

19 **APPROVED BY:**

20 WASHINGTON STATE OFFICE OF THE ATTORNEY GENERAL

21 _____, Assistant Attorney General
22 Attorneys **for** the Washington State Office of Insurance Commissioner

23 **III. STIPULATED ORDER**

24 The Commissioner hereby APPROVES the Stipulation of **the** OIC and PREMERA
25 incorporated herein and **ORDERS** as follows:

STIPULATED ORDER - 3

1. Declaration of Completeness of Premera Statement. Consistent with the provisions of RCW 48.31B.015(4)(b) and RCW 48.31C.030(4), the Premera Statement is declared to be complete as of October 25, 2002.

2. Approval of Stipulated Date for Commissioner Determination. Consistent with the Stipulation of the OIC and **PREMERA**, the Determination Deadline for the Premera statement is extended to **March** 1, 2003, which shall be the date on or before which the Commissioner issues his determination to approve or disapprove the Premera Statement, subject to any further extension of the Determination Deadline mutually agreed to by the **OIC** and **PREMERA**.

3. Approval of Related Procedural Agreements. All review of the Premera Statement, including all discovery related to the Hearing and the Hearing itself, is to be completed prior to March 1, 2003, in order for the Commissioner to issue his determination approving or disapproving the Premera Statement on or before that date.

It is so ORDERED this ____ day of November, 2002.

Mike Kreidler, Insurance Commissioner for the State of Washington